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AUTHOR(S):

Matsuoka, Koji

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ON JAPANESE CURRENCIES CIRCULATING IN NORTH CHINA

By KOJI MATSUOKA

1. FOREWORD

As everyone is well aware, Chinese economy after the 19th century gradually advanced to the stage of national economy, due to the economic influence of advanced capitalist countries. Until recently, however, it was still substantially a composition of several regional economies, each having its dominating centre; and it failed to form a unified national economy. True, *China's* unification policy has been greatly strengthened in recent years, the anti-Japanese movement having been utilized as one of the most effective measures for bringing about the desired object of this policy. The fact remains, however, that the unification so far brought about is far from being adequate. For instance, the economy of North China, which I shall discuss in the present article, cannot be said to have any necessary relation with the Nationalist Government; nor does it belong to the economy of Central China. North China economy is essentially a historical and regional economy with Tientsin as its centre, and as such is susceptible to the influence of Central China economy in some respects, while, at the same time, enjoying the privileges of a special district as regards others.

A similar assertion may also be made regarding the currency question, and this is why Japanese currencies circulating in North China become an issue. China in 1933 carried out a monetary reform in which the *tael* was abolished and the *yuan* took its place. Again in November, 1935, China adopted a gold exchange standard linked to the pound sterling, thereby solving the long-standing question of the standard currency. Thus, China in one bound

advanced to the currency standard of modern capitalist economy. With this new monetary standard, China tried to unify the currencies of the entire country but opposition by the south-western and northern districts prevented the realization of this policy. Especially in North China, efforts were repeatedly made to turn the territory into a special district of China in both political and economic affairs. No one, therefore, can afford to neglect a study of the peculiarities of North China economy.

It is in the above sense that I attach importance to the general questions of currencies in North China economy. However, I am unable to dwell on them to any great extent in the present article, and I must be content with centering my attention on the problem of Japanese currencies. Although this question requires the closest attention in North China for many reasons, as a matter of fact it has been comparatively neglected. I am inclined to believe that the vital points involved in this question have not been duly recognized. It is my fervent wish that Japan should give a closer scrutiny to currencies in North China economy as one of the most important problems in her Chinese policy, in view of the historical facts which have required Japan to pay a close attention to North China economy.

I shall first consider recent general conditions in China and examine how they are linked with the problems of Japanese currencies.

With the aggravation of the recent world depression, China came to face both the steady rise of the price of gold and the depreciation of silver, and, as part of the area affected by worldwide depression, she was dragged into the whirlpool of world panic. The intense agricultural panic, fermenting in her primitive industry with Asiatic modes of production, gradually shifted towards manufacturing, and this trend was accelerated by the American policy of raising the price of silver. All this developed into a panic regarding China's currency standard and shook Chinese economy to its very foundations. On the other hand, this panic

regarding the Chinese standard currency accelerated the tendency towards the unification of Chinese currencies and raised the currency problem of abolishing the *tael* and adopting the *yuan* in its place, and finally culminated in the adoption of the gold exchange standard. All this had the effect of stabilizing exchange at a devaluated level and thereby undermining the business of ordinary foreign banks whose vital object was to make special profits by means of exchange, and reduced their *raison d'être*. Further, it also tended to facilitate the formation of modern banks and rendered it advantageous for them to make an advance towards exchange transactions. Concretely speaking, this tendency had the effect of spurring on the modernization of the so-called Chekiang financial group, and thus strengthened the control exercised by the Shanghai financial market over the financial markets in various parts of the country. In consequence, the effects of such stronger control were also extended into the Tientsin financial market.

Needless to state, the above situation affected the position of many financial organs in Tientsin, the financial market of North China; and, of course, the Japanese financial organs could not escape the same effects. It was back in 1889 that the Yokohama Specie Bank established its branch at Tientsin as an exchange bank there, and in 1912 the Tientsin Bank was created. Three years later, the Seiryu Bank established its branch in the same city, followed by a branch of the Bank of Chosen in 1918. After 1912, about one half of the trade carried on through Tientsin was by means of these Japanese banks which thus had consolidated Japan's economic relations in North China, when the foregoing currency reform of China was extended into that region. In view of their historical development, these Japanese banks could not but ignore the new financial developments in China.

It was during such a course of events that Japan's economic power was developed and consolidated in North China. And it was but too natural that the question of currency unification in China should be examined and

scrutinized from the viewpoint of Japan in order to prepare for the new situation, because it was in the same region that the historical development of Japanese finance had been made.

The Yokohama Specie Bank and the Bank of Chosen are the two outstanding banks among the Japanese banks in Tientsin. I shall, therefore, take these two banks as the central factor of the historical development in the circulation of Japanese currencies, and examine their characteristics and substance, so as to consider proper measures required today in North China to meet the question of Japanese currencies there.

2. THE STAGES OF DEVELOPMENT IN THE CIRCULATION OF JAPANESE CURRENCIES

The inter-connection of currencies in North China, with Tientsin as the centre, with not only Chinese economy but also foreign economies has had a history of two hundred years; but it is since 1860 that Tientsin has been playing the rôle of a domestic as well as foreign trade port.

Japan's relations with Tientsin currencies may also be traced to a quite distant past, but we are here concerned chiefly with the development made after the Sino-Japanese War of 1894-1895. The history of Japanese currencies after this may be divided into the following four periods: (1) from the Sino-Japanese War to the Russo-Japanese War of 1904-1905; (2) from the Russo-Japanese War to the World War; (3) from the World War to the establishment of Manchoukuo; (4) from the establishment of Manchoukuo to the present time. I shall dwell on each of these points in detail.

At the outset I wish to point to the fact that Japanese currencies are of two kinds: those belonging to the gold standard and those belonging to the silver standard. Thus, the former are the Bank of Japan notes, the Bank of Chosen notes, Manchoukuo currencies, and the Chitung Bank notes;

while the latter are the Yokohama Specie Bank notes which are known by the name of *chao piao* or bills. The latter have been greatly reduced in importance in recent years, and it is the Japanese currencies of the gold standard that are likely to become an issue. I shall, therefore, treat in this article only the notes issued by the Bank of Japan and the Bank of Chosen. There are problems full of interest regarding the Manchoukuo currencies and the Chitung Bank notes, but I shall be content to leave their treatment to some future occasion.

The circulation of Japanese currencies during the first period was due to Japan's economic advance into North China after the Sino-Japanese War. As a result of this war, a Japanese settlement was established at Tientsin and an army garrison was stationed there. This had the effect of stimulating Japan's trade with North China and spurred on the development of her economic power in the same region. Consequent upon this economic expansion, the Yokohama Specie Bank established a branch at Tientsin. The only Japanese currency circulating in North China during this first period was the Bank of Japan notes.

The circulation of Japanese currencies during the second period was due partly to Japan's continued economic advance in North China after the Russo-Japanese War; but the more notable cause was a similar economic advance of Japan into Manchuria and the development of the consequent economic connections between Japan and China. Especially after the establishment of the Bank of Chosen and of its branch at Tientsin in 1918, the Bank of Chosen notes came to be circulated as a sort of exchange bills between Japan on the one hand and Manchuria and North China on the other, and as such were a favourable factor in foreign trade. The world-wide depreciation of the price of silver and the rise of the price of gold facilitated transactions with Chinese traders, and such transactions in Tientsin brought about the heyday of Japanese currencies. Needless to state, these currencies were represented by the Bank of Chosen notes.

True, there were other notable Japanese currencies such as the Yokohama Specie Bank notes. This bank was authorized to issue notes in China and Kwantung Province by an Imperial decree in 1906, and its notes were circulated as a sort of trade bills. It may easily be supposed from the foregoing statement that these notes constituted Japanese currency of the silver standard in contrast with the Bank of Chosen notes, which were Japanese currency of the gold standard.

During the third period under review, the circulation of Japanese currencies received a setback from the worldwide *post bellum* depression and the consequent inactivity of Japan's trade with North China. The most remarkable phenomena in this connection were the anti-Japanese boycott following the Tsinan Incident, the consequent development of traditional Chinese economy, and above all the bad business condition of the Bank of Chosen, which was exposed to the *post bellum* economic depression. Although the principal Japanese currency circulating in North China during this period, as in the case of the second period, was the Bank of Chosen notes, these notes were in a state of depression during the third period, in sharp contrast to the golden age they enjoyed during the preceding period. The third period may indeed be described as a period of stagnation for currencies of the gold standard.

Lastly, let us review the fourth period. The depreciation of the price of silver after the World War tended to stimulate China's traditional economy, and her long-standing question of currency standard became an issue again with the development of her economy. China then came to adopt the gold exchange standard which is linked to the pound sterling through the currency reform of 1933, as we have already noted. This led, on the one hand, to the gradual centralization of the currency system in North China and, on the other hand, to the establishment of the Hopei-Chahar Government coupled with the advance of Sino-Japanese economic co-operation in the same region, which

offered an opportunity for making a closer examination of the problem of Japanese currencies there. The establishment of Manchoukuo at first enabled the Bank of Chosen to extend its experienced policy, based on the gold exchange standard, into that country; but the development of the Manchoukuo currencies later on led to the adoption of a kind of the gold exchange standard system. Moreover, the Bank of Chosen, which was at first active in playing the rôle of a bank of issue, had to retreat from such a position. This fact came to create two issues in Japanese currencies in North China: the question of the Bank of Chosen as the instrument of Japanese financial advance in North China and the Chitung Bank question in the Chitung district.

These two issues were the results of the development of Japanese economy in North China. It is clear that the financial centre of North China is the Tientsin market. In view of this fact, the question of Japanese currencies was subjected to a close re-examination. The Bank of Chosen is strongly expected to play the rôle of the most active banking organ of Japanese economy in the region under the prevailing circumstances.

3. THE CHARACTERISTICS OF JAPANESE CURRENCIES IN NORTH CHINA

Japanese currencies in North China circulate with the financial market of Tientsin as the centre. They circulate in the definite processes of natural demand and supply as well as in the processes of artificial demand and supply in which they are employed.

The following are the principal processes of natural demand for Japanese currencies: (a) settling the transactions covering goods smuggled from Manchoukuo to Tientsin; (b) paying in gold notes at Tientsin; (c) making trips to Japan and Manchoukuo; (d) offering cash for arbitrage on Chinese exchange transactions. The following are the principal processes of artificial demand for Japanese currencies:

(a) paying for the goods imported from Japan; (b) paying of gold notes for remitting money to Japan from Tientsin; (c) depositing of gold notes; (d) buying of goods for the purpose of raising the value of gold notes.

The following are the principal processes of natural supply of Japanese currencies: (a) importing cash necessary for Chinese exchange transactions; (b) keeping gold notes at hand at Tientsin for the payment of goods smuggled out to both Manchoukuo and Japan; (c) the bringing of gold notes by travellers from Manchoukuo and Japan; (d) selling gold notes for the purpose of stabilizing Manchoukuo currencies; (e) paying of gold notes for money remitted from Japan to Tientsin. The main processes of artificial supply are: (a) paying of gold notes for goods exported to Japan; (b) paying of deposits made in gold notes; (c) making loans in gold notes. Whenever Japanese currencies were circulated positively, there invariably prevailed a harmony between the processes of natural and artificial supplies; but whenever these notes were circulated negatively, the two sets of processes were opposed to each other.

I have briefly explained how Japanese currencies circulate in Tientsin. Japanese currencies circulating in the financial market of North China are essentially a kind of a gold exchange standard currency circulating around economic relations, especially the economic inter-dependence between Japan, Manchoukuo, Tientsin and other points in North China.

Although Japanese currencies such as the Bank of Japan notes and the Bank of Chosen notes are privileged to circulate as legal tender in districts designated by law or regulations, such a privilege is not guaranteed in North China nor, for that matter, in any other parts of China. That which is recognized officially as legal tender in North China is the standard currency, the Chinese currency, which is under the gold exchange standard. The Japanese currencies above described possess the quality of currencies in alliance with Chinese currencies. But aside from such a question of legal

tender, the Japanese currencies have the purchasing power of a very high security, and as a means of external payment between China and Japan they enjoy great public confidence. In fact, the Japanese currencies in such a sense may be said to be great exchange currencies in China.

Another characteristic of Japanese currencies in North China is their inconvertibility and unexchangeability. Nor is this unnatural in view of the fact that Japan keeps the gold standard suspended. This question may be considered from unexchangeability between the Bank of Japan notes and the Bank of Chosen notes. Although the Bank of Chosen notes are legally exchangeable with the Bank of Japan notes by virtue of Section 2, Article 21 of the Bank of Chosen Law, in North China they are not held as exchangeable, because the former notes were regarded as only exchange currencies possessing no absolute power of legal tender. For this reason, when the demand for the Bank of Chosen notes for the purpose of exchange with the Bank of Japan notes is greater than the demand for the latter notes for exchange with the former, there is a possibility of a discount against the Bank of Chosen notes. This means on a further inquiry that, although these two sets of notes are ostensibly equal in value, the actual fact is otherwise, the Bank of Chosen notes having a lesser degree of confidence placed in them by the public. This is bound to bring about a serious effect on Japan's currency policy in North China.

But the possibility of such a fear means that, although Japanese currencies, the Bank of Chosen notes in particular, have a vital reason for existence, they will have different values at different times and their values will be differently assessed as the means of standard currencies. All this in the end will mean that the positive nature of the Bank of Chosen notes as standard currencies is betrayed, and that they are therefore not in a position to enjoy their intended positive existence in the economic structure of North China. And if this be true, and the Bank of Chosen notes are un-

able to play their positive rôle, there certainly would be something that would require Japan to reconsider her efforts, as now exerted, for the purpose of carrying out economic enterprises there in co-operation with the local Chinese authorities. The very fact that the Bank of Chosen notes are inferior in value to those issued by the Bank of Japan, and thus are not mutually exchangeable, will assuredly indicate the lesser degree of public confidence placed in the former notes, the value of which is, however, stabilized in North China and supposed to be equal with the value of the Bank of Japan notes. Under the prevailing situation, the increased circulation of the Chosen Bank notes may be taken as an indication of the growth of Japanese economic power. However, in order to bring about the desired results of Japanese economic advance through the Bank of Chosen, any difference in value between the two sets of bank notes should not be tolerated. How to equalize the two sets of bank notes or to unify their values is extremely important so long as the Bank of Chosen notes are regarded as exchange currencies.

The fundamental cause of the difference in value between the two sets of bank notes above described is the relation of their supply and demand. In the economic relations between Japan and North China, there is an export surplus in favour of Japan, when the relations are considered either in terms of commodities traded or in terms of capital invested. However, in the case of the relations between North China and Manchoukuo, there is an export surplus in favour of North China. That is to say, North China is at the unfavourable end of trade with Japan but at the favourable end with Manchoukuo. Thus, for the financial market of North China, Bank of Chosen notes become an issue because they are in demand, and Bank of Japan notes also become an issue because they are supplied in the same market. Under these circumstances, Bank of Chosen notes are often transported because of geographical advantage, but this is not so with Bank of

Japan notes because of the cost of transportation involved. All these circumstances inevitably give rise to a difference in demand and supply, as above noted.

4. THE SUBSTANCE OF THE SO-CALLED JAPANESE CURRENCIES

It goes without saying that the most important of Japanese currencies circulating in North China are the notes issued by the Bank of Chosen and the Bank of Japan. And it is precisely these two sets of bank notes that I wish to deal with in this article. In addition to these banks, there is the Yokohama Specie Bank which, besides being the exchange bank of the Government, has the right to issue bank notes in China. It is the notes issued by this bank that are known by the general name of "chao piao", or bills, in North China. Since March, 1889, the Yokohama Specie Bank has been in charge of handling and keeping in trust the currencies abroad of the Japanese Government and the Bank of Japan; and also, in the capacity of the overseas agent of the Bank of Japan, has been handling and keeping in trust the specie holdings abroad of both the Japanese Government and the Bank of Japan. This bank, as has already been stated, has the right to issue bills in China and also conducts business regarding Bank of Japan notes in the capacity of the agent for the National Treasury. Of course, this does not involve any relation of economic interest to the circulation of Bank of Japan notes themselves, so long as the Yokohama Specie Bank is authorized to collect commissions for conducting banking business on behalf of the National Treasury.

The position of the Bank of Chosen is quite different. Since its establishment in 1909, it has been regarded as the financial organ of Japan for carrying out her Continental policy. Then, after November, 1917, the notes issued by this Bank came to be treated as legal tender in Kwantung Leased Territory and the South Manchuria Railway Zone:

It has been conducting the financial affairs of the National Treasury and functioning as the only bank of issue both in name and in substance in Manchoukuo and Kwantung Leased Territory. Moreover, as a result of the Siberian Expedition of Japan in August, 1918, the Bank of Chosen also came to conduct the banking business of the National Treasury in various parts in North Manchuria and Siberia, and in consequence came to possess much experience regarding the operation of the currency system of the gold exchange standard. On the other hand, the fact should be noted that the Bank of Chosen is not acting as the agent of the Bank of Japan in North China, and that consequently its right of issuing bank notes is not recognized in China. For this reason, although its bank notes are playing the rôle of exchange currencies, their function is not quite adequate. The recognition of this fact is important in reforming the Bank of Chosen because the bank is enabled by an entirely new situation to enjoy a positive existence in sharp contrast to its negative existence after the close of the World War and its consequent business depression in recent years. Moreover, the establishment and development of the Central Bank of Manchoukuo came to affect very materially the position of the Bank of Chosen in that new country. The Bank of Chosen accepted as a matter of course the financial control planned and executed by the Central Bank of Manchoukuo. On the other hand, the Bank of Chosen came to recognize the importance of turning bank notes into something more than mere exchange currencies in North China; in other words, the bank wished to turn its notes into tokens of the standard value so as to participate in Japan's economic enterprises in the region, in view of the latest development of Japanese economy there.

Some fear that, if the Bank of Chosen should pursue such a positive policy in North China, it may prove prejudicial to the policy of harmony between that bank and the Yokohama Specie Bank. To be more concrete, it is feared that, if the bank notes of the Bank of Chosen should come

to be used for settling export and import bills, importers and exporters, and for that matter all traders there, would prefer these bank notes to any other, because of their unchangeable value. It is feared, for instance, that the customers of the Yokohama Specie Bank, which is an exchange bank, will go the Bank of Chosen in settling their import or export bills by means of the notes issued by the Bank of Chosen. Such a possibility would be liable to cause an embarrassment to the policy of harmony which has existed between these two large Japanese banks, and certainly proper measures in counter to such undesirable results should be considered.

Moreover, suppose the Bank of Chosen adopted a positive policy of increasing the circulation of its bank notes. The increase of the notes issued by the Bank of Chosen might be followed by a desire on the part of that bank to exchange its notes with Bank of Japan notes. If this desire is translated into actuality, the amount of Bank of Japan notes in possession of the Bank of Chosen will be increased. All this is bound to involve a revision of the existing method of turning Bank of Japan notes over to the Yokohama Specie Bank and may jeopardise the prevailing perfect understanding existing between these two banks.

The third apprehension is that the deposits with the Yokohama Specie Bank may be reduced while those with the Bank of Chosen may be increased, because of the tendency in North China to replace the deposits in bills by those in standard currencies, thereby decreasing the amount of the former.

What I have presented in the foregoing pages may have convinced the reader of the necessity of some measure of control regarding Japanese currencies in North China, but I shall now take up this point somewhat in detail.

First, the possibility of inconvertibility between the notes issued by the Bank of Chosen and those issued by the Bank of Japan, as noted above, is due to lack of correspondence in supply and demand between these two sets of

bank notes. Two methods are conceivable for solving the above question and at the same time for maintaining the positive policy of the Bank of Chosen: (1) to adopt some method of unlimited exchange of the notes issued by the Bank of Chosen and (2) to exchange the same notes with exchange bills drawn on Japan without any compensation. But neither of these two methods will be bearable to the Bank of Chosen. The only conceivable practical method will be either to limit the amount of notes to be exchanged between the two banks or to collect from the Bank of Chosen the same rate of fees for remittance as is charged the Yokohoma Specie Bank. However, neither will be positive enough. The result of such methods will be negative in nature and they will be incapable of eliminating the difference in exchange value between the notes issued by these two banks.

Furthermore, there will be fear that such a positive policy on the part of the Bank of Chosen will infringe upon the Foreign Exchange Control Act or the Foreign Exchange Management Regulations of Kwantung Province and of the South Manchuria Railway Zone. Opinions may vary as regards the technique of the business of issuing notes, but there will be no denying the violation of law above stated. A legal question such as this must not be forgotten in connection with the positive policy of the Bank of Chosen.

Lastly, the positive policy of the Bank of Chosen will benefit the bank through increases in transactions even though its profits from exchange may decrease, because such a policy is bound to concentrate trade bills in that bank. Thus, the bank cannot be said to derive any unlawful profit from such a policy. Its danger rather lies in the possibility of reckless loans that the bank may extend by utilizing its standard currencies. An example of such recklessness will be the extending of loans at a high rate of interest in overseas territories out of the funds the bank may borrow from the home Government at a nominal rate.

5. CONCLUDING REMARKS

We have seen that Japan is facing a momentous time as regards her currencies circulating in North China. Although the development of Japanese economic forces, coupled with the advance of Sino-Japanese economic co-operation, has resulted in an increase in the importance of the currency question, the planning and preparing of our currency policy are characterized by sheer procrastination.

It is not impossible to view this procrastination as having come from our indifference and lack of a definite policy regarding Japanese economy in China, especially regarding Japanese currencies and finance in that country. This point requires our special consideration in view of the geographical propinquity between North China and Manchoukuo. The existing situation in Sino-Japanese relations requires the solution of such problems and a subsequent positive advancement. In every respect it is necessary that we should be deeply concerned over these problems.

Needless to state, a deeper consideration is necessary in executing our positive measures in North China. Of the three points I have presented, the second and third points should be taken up and supervised principally by the Japanese Finance Department, the Government-General of Chosen and the Kwantung Bureau. But it is the first point, namely, the question of the Bank of Chosen notes in relation to the Bank of Japan notes that is very difficult of solution. There will be questions of proper organs and measures, in case there be a variation in demand and supply between the two sets of bank notes. It may be said that great determination and wise measures will be absolutely required for control of the foregoing question so long as the positive policy of the Bank of Chosen is to be accepted under the existing circumstances. And so long as such a positive policy is admitted as an absolute requirement, fear of discrepancy in supply and demand between different currencies will be nothing but an injury to that policy itself.

There are at present many delicate problems regarding Japanese currencies in North China. In carrying out various economic enterprises there, Japan should sagaciously solve these financial problems side by side with her industrial operations, as if these two sets of questions were the wheels of the same vehicle. Unless proper consideration be given and appropriate measures be adopted, there will result serious consequences.